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SONT DE PIÈTRE QUALITÉ DE REPRODUCTION

ALBERTA HERITAGE SAVINGS TRUST FUND

ANNUAL REPORT 1986-87

88-00394/

The Heritage Fund was established in 1976 with three objectives:
1. to save for the future;
2. to strengthen and diversify the economy of Alberta;
3. to improve the quality of life for Albertans.

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TREASURY

The Honourable Dick Johnston
Provincial Treasurer

A. J. McPherson
Deputy Provincial Treasurer
Chairman and President

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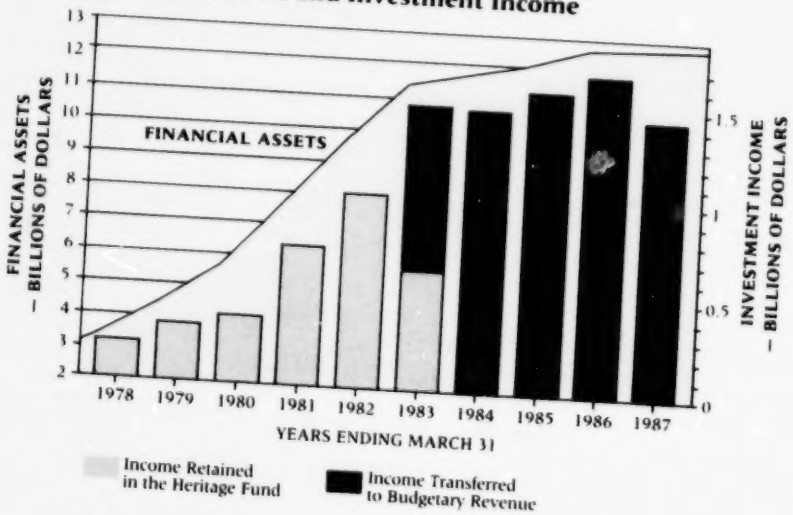
HERITAGE FUND HIGHLIGHTS

- Financial assets of $12.7 billion earned net income of $1.4 billion in 1986-87.
- The Heritage Fund's net income was transferred to the province's general revenues to enable the continuation of high levels of government services and to keep taxes as low as possible.
- 15% of the province's resource revenue ($216 million) was transferred to the Heritage Fund in 1986-87; the transfer has been suspended for 1987-88.
- Two new initiatives started in 1986-87 for the benefit of rural Albertans are the development of recreation/tourism areas throughout the province and the provision of private telephone line service.
- Financing of $221 million in 1986-87 enabled provincial Crown corporations to assist small businesses, homeowners and senior citizen renters.
- Capital Projects Division investments play a major role in providing employment for Albertans and now total in excess of $2.8 billion.
- Close to $1 billion was provided as interim financing for the Alberta Farm Credit Stability Program and the Small Business Term Assistance Plan.

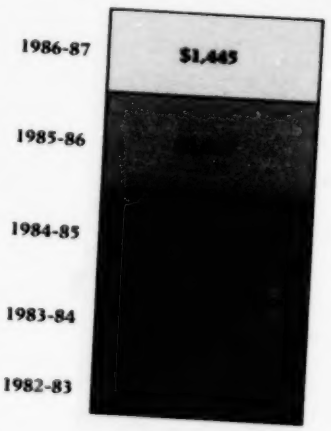
ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Assets and Investment Income



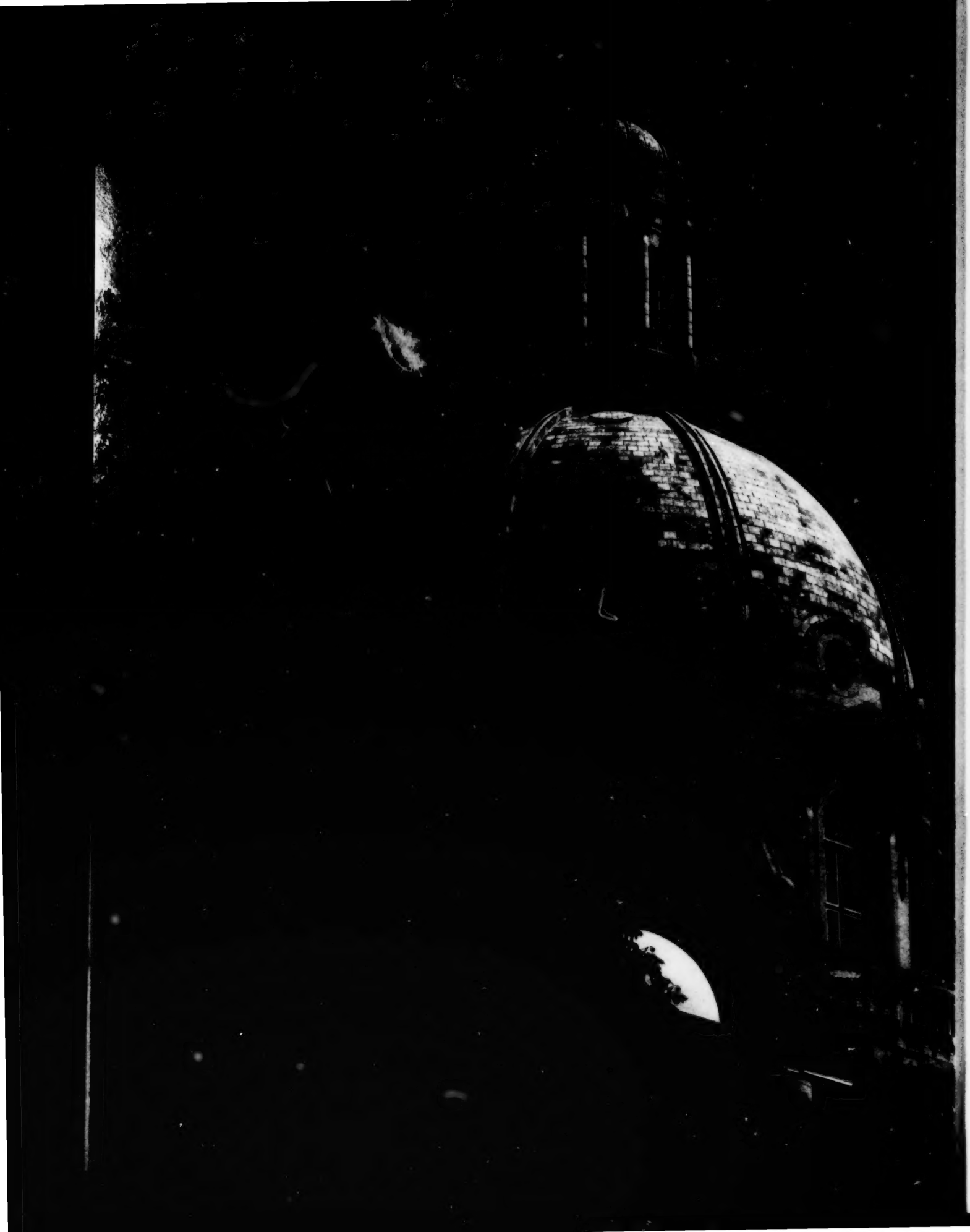
The Heritage Fund's financial assets of $12.7 billion earned income of $1.4 billion in 1986-87.

Contribution to Budgetary Revenues Millions of Dollars



Total – $7,022

The Heritage Fund has provided over $7 billion to help finance Alberta's high quality programs.



PROVINCIAL TREASURER'S REPORT

The eleventh year of operations of the Alberta Heritage Savings Trust Fund, 1986-87, saw the Fund respond to the financial stresses facing the province and play an increasingly important role in Alberta's economy.

It was a difficult period for Alberta in 1986-87. The beginning of the year was marked by a decline in world oil prices of more than 50 per cent from a year earlier, while uncertainty continued to dominate world oil markets throughout the year. The energy industry scaled back their exploration and development expenditures as a reaction to unstable oil prices and reduced cash flows. Our agricultural sector experienced financial difficulties due primarily to low grain prices in the world markets as a result of grain surpluses. These two international market developments seriously impacted the Alberta economy.

A sharp reduction in non-renewable resource revenue as a result of lower oil prices adversely affected Alberta's fiscal situation. However, the Heritage Fund put the province in a strong financial position to be able to respond to these unforeseen events. In 1986-87, the Heritage Fund's investment income contributed $1,445 million or approximately one-fifth of the province's total budgetary revenues. Since 1982, the Fund has provided over $7 billion to help maintain high quality government services for Albertans and minimize the taxes Albertans must pay. The availability of the Heritage Fund's income in 1986-87 was crucial to the province's ability to withstand the sharp loss of revenue.

Even with the Heritage Fund's income flow, the drop in world oil prices caused the province to run a large budgetary deficit in 1986-87. The existence of the Heritage Fund was an important factor in helping the province borrow at preferential interest rates in the Canadian and world capital markets. Its strength also enabled the government to establish the innovative Alberta Farm Credit Stability and Small Business Term Assistance Programs which provide long-term loans to farmers and small businesses at a fixed interest rate of nine per cent.

During 1986-87, fifteen per cent, or $216 million, of the province's non-renewable resource revenue was transferred to the Heritage Fund. In 1987-88 the resource revenue transfer has been suspended as part of our efforts to reduce the budgetary deficit to zero by 1990-91.

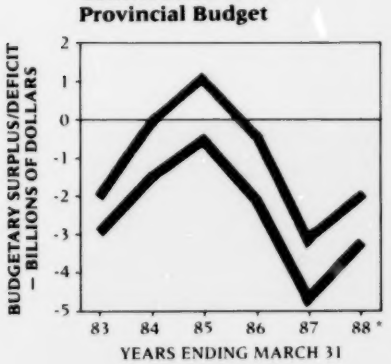
Although it is no longer growing, the Heritage Fund will continue to work for Albertans through the legacy of present investments and reinvestment of existing maturing financial assets.

The Heritage Fund has continued to broaden Alberta's economic horizons and to assist in the government's diversification efforts. During 1986-87, the range of financing options offered by the Alberta Opportunity Company was broadened to assist Alberta small businesses in tourism, manufacturing and high technology. These investments have generated new employment throughout the province.

Two new initiatives during the year have helped to improve the quality and diversity of services available to Albertans. Over the next five years, rural Albertans will have their telephone services upgraded to private lines and will thereby gain access to improved communication services. The development of municipal recreation/tourism areas will enhance outdoor recreation and tourism opportunities.

With the Heritage Fund, Alberta is in a position to respond to present and future challenges. Through its investments and earnings, the Heritage Fund will continue to build on Alberta's basic strengths and to enhance the quality of life of Albertans. The Heritage Fund is working for the benefit of all Albertans.

Heritage Fund Income Contribution to the Provincial Budget



* Projection

Actual Budgetary Surplus/Deficit With Heritage Fund Income Transfer

Budgetary Deficit Without Heritage Fund Income Transfer

Since 1982-83, the Heritage Fund income transfer has helped to strengthen the province's fiscal position.

Dick Johnston
Provincial Treasurer

HOW THE HERITAGE FUND WORKS

The Heritage Fund

The Alberta Heritage Savings Trust Fund was created in 1976 in recognition that the then rapidly increasing revenues received by the province from the sale of non-renewable resources would not continue indefinitely. The Fund has had three basic objectives since its inception eleven years ago:

1. to save for the future,
2. to strengthen and diversify Alberta's economy,
3. to improve the quality of life in Alberta.

The Role of the Heritage Fund

In the early years of the Fund's existence, Alberta's economy grew rapidly in response to higher prices for our oil and gas resources. The strong economy provided the government with considerable flexibility in the management of the province's finances. While providing the highest quality services to Albertans, the government was also able to allow the Heritage Fund to grow quickly during this period through the transfer of 30 per cent of resource revenues received by the province. The Fund also retained the earnings on its investments, and had accumulated financial assets of nearly $10 billion by March 31, 1982.

However, in 1982, Alberta was faced with an economic slowdown accentuated by the effects of a world wide recession. A budgetary deficit was forecast for 1982-83 and additional deficits were anticipated for the future. It was decided that two courses of action should be taken. Government expenditure and revenue would be brought into line, and the Heritage Fund would play a more active role in the fiscal strategy of the province.

Effective September, 1982, an amendment to the Heritage Fund Act permitted the transfer of investment earnings from the Fund to the province's general revenues. Then, effective April 1, 1983, it was decided to reduce the percentage of non-renewable resource revenue transferred to the Heritage Fund from 30 per cent to 15 per cent. As a result of these changes, between 1982-83 and 1986-87 an additional $9.4 billion, or an amount equivalent to almost a full year's budget, has been made available to the province's general revenues for the purpose of providing services to Albertans while restraining the size of the deficit.

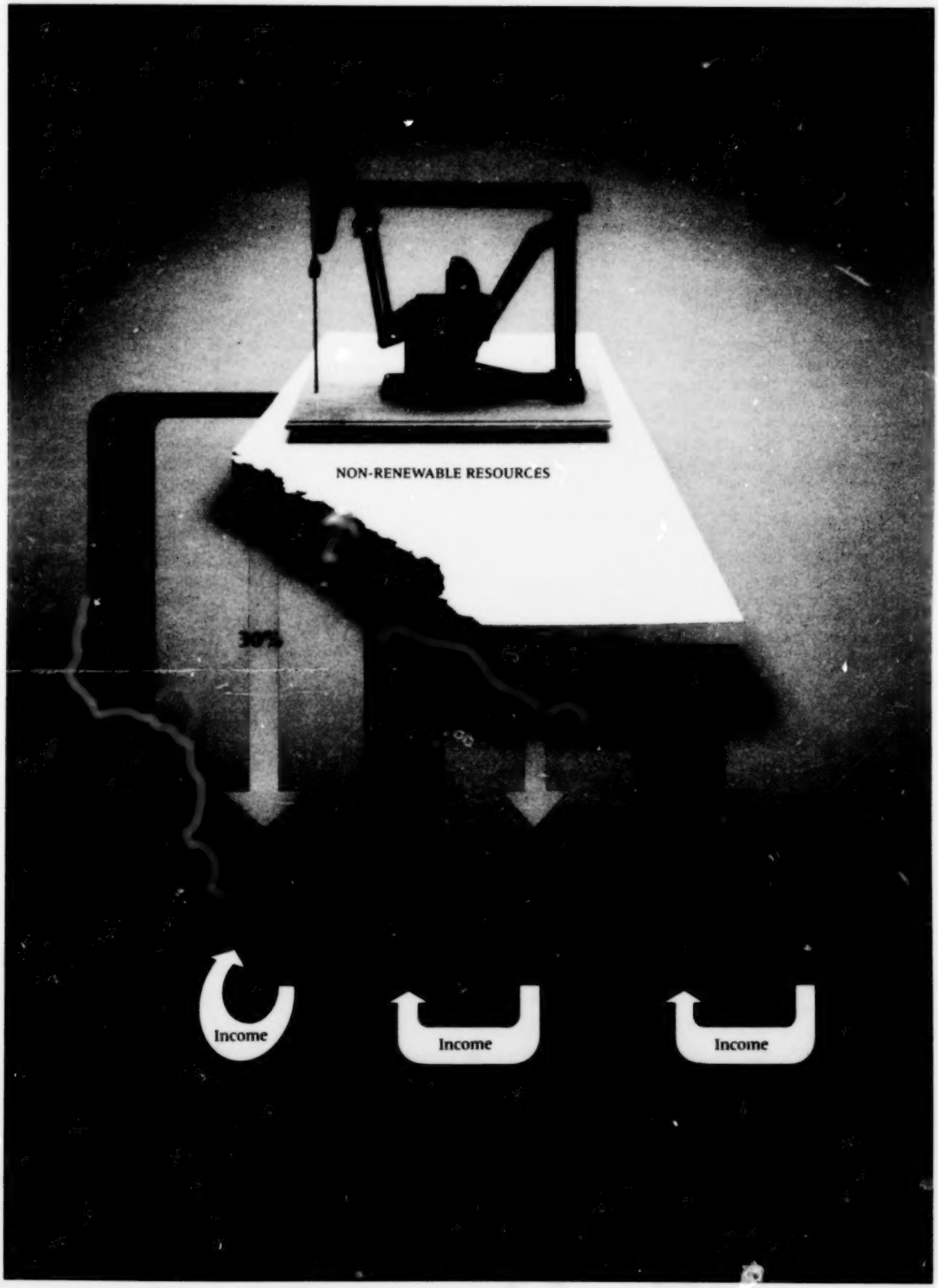
The chart opposite shows the evolving role of the Heritage Fund in the province's finances.

Alberta's economy has not returned to its pre-recession level. The 1987-88 Budget called for reductions in government expenditure as well as increases in the level of taxation. Despite these measures, the government anticipates a deficit in 1987-88, in addition to the large budgetary deficit experienced in 1986-87. For this reason, it has been decided to "cap" the Heritage Fund by suspending the transfer of resource revenue in 1987-88, and continuing the policy of transferring the investment earnings of the Fund to general revenues. It is anticipated that capping the Fund will provide about $262 million in additional revenue for the budgetary requirements of the province.

Who makes the decisions?

The responsibility for the administration of the Alberta Heritage Savings Trust Fund rests with the elected representatives of the people of Alberta and their respective staffs. The chart overleaf shows the division of the key responsibilities relating to the Heritage Fund.

Investment proposals under the Alberta, Energy and Capital Projects Divisions are typically recommended by the appropriate government department through the responsible minister.


NON-RENEWABLE RESOURCES
30%
Income
Income
Income

WHO MAKES THE DECISIONS?

Provincial Legislature

1. Establishes overall legislative framework for the Fund and its operations.
2. Approves the Special Appropriation Act to transfer resource revenue to the Heritage Fund.
3. Votes on the amounts to be invested under the Capital Projects Division.
4. Approves maximum investment in each provincial Crown corporation under the Alberta Investment Division.

Investment Committee (Cabinet)

1. Approves all investments under the Alberta, Canada and Energy Investment Divisions upon the recommendation of the Provincial Treasurer.
2. Has delegated authority to the Provincial Treasurer to make investments under the Commercial Investment Division within guidelines it has approved.

Provincial Treasurer

1. Responsible for day to day investments under the Commercial Investment Division and Cash and Marketable Securities.
2. Responsible for overall administration of the Heritage Fund.

Other Ministers

1. Responsible for the submission of budgets and the administration of projects funded through the Capital Projects Division, the administration of provincial Crown corporations financed under the Alberta Investment Division and of certain other investments.

Select Standing Committee on the Alberta Heritage Savings Trust Fund Act

1. Reviews Annual Report and makes recommendations with respect to existing and potential investments.

Auditor General

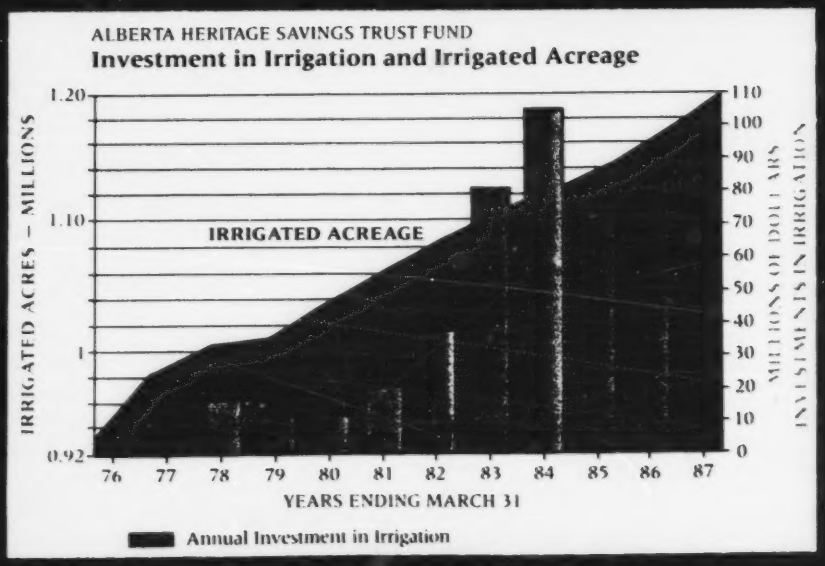
1. Audits the financial statements of the Heritage Fund.

HERITAGE FUND'S INVESTMENT DIVISIONS

The Heritage Fund consists of five Investment Divisions and a portfolio of marketable securities. The following chart describes the different types of investments permitted for each Division.

Division	What the Investments Must Do	Investments Permitted
Alberta Investment Division	Strengthen or diversify the economy of Alberta. Yield a reasonable return or profit.	Debt or equity. No limitation on the size of the Division. Current investments include debentures of provincial Crown corporations, corporate debentures, and equity holdings.
Canada Investment Division	Yield a reasonable return or profit.	Loans to other provincial governments or their agencies. The Division is limited to 20 per cent of the Fund's assets including deemed assets.* Lending activity was suspended in March, 1982.
Commercial Investment Division	Yield a commercial return or profit.	A wide range of securities is permitted. Current investments are primarily common shares. Guidelines limit investment in common shares of any one Canadian corporation to no more than five per cent of the shares outstanding. Investments are managed on a passive basis. Since 1984-85, the Investment Committee has allowed its original $200 million limit on the Division to increase quarterly by an amount equivalent to the net investment income earned by the Division.
Energy Investment Division	Facilitate the development, processing or transportation of energy resources within Canada. Yield a reasonable return or profit.	Debt or equity. No limitation on the size of the Division. No new investments were made in 1986-87.
Capital Projects Division	Provide long-term economic or social benefits to the people of Alberta. Projects may not necessarily by their nature yield a return.	The Division is limited to 20 per cent of the Fund's assets including deemed assets.* Current investments include capital projects, agricultural and oil sands research, and endowment funds for medical research and scholarships.
Cash and Marketable Securities	Invest funds not immediately required for other Divisions. Yield a market return.	Short-term money market securities, marketable bonds, and deposits.

* Non-recoverable investments under the Capital Projects Division are classified as deemed assets of the Heritage Fund and are not included in its financial assets.


ALBERTA HERITAGE SAVINGS TRUST FUND
Investment in Irrigation and Irrigated Acreage
IRRIGATED ACRES – MILLIONS
1.20
1.10
1
0.92
IRRIGATED ACREAGE
110
100
90
80
70
60
50
40
30
20
10
0
MILLIONS OF DOLLARS
INVESTMENTS IN IRRIGATION
76
77
78
79
80
81
82
83
84
85
86
87
YEARS ENDING MARCH 31
Annual Investment in Irrigation

AGRICULTURE

Alberta Agricultural Development Corporation
(Alberta Investment Division)

The Corporation provides loans and loan guarantees to farmers and agribusinesses. Programs help support family farms and encourage the processing of agricultural products within Alberta. Direct farm loans are made at a preferred rate of interest and many borrowers are eligible for incentive rebates of a portion of their interest costs.

In 1986-87, the Corporation made 597 loan commitments totalling $61 million under its Beginning Farmer Program and $3 million in loans to help established farmers expand and improve their productivity. The Corporation also provided $87 million in loan guarantees to Alberta farmers and agribusinesses.

Investment at March 31, 1987:
$1,004 million

Irrigation Rehabilitation and Expansion
(Capital Projects Division)

This project represents a long-term commitment to ensure the efficient delivery of water to existing and potential irrigated land, and combined with the Irrigation Headworks and Main Irrigation Systems Improvement project, will significantly improve the efficiency and increase the potential of irrigation in Alberta. The 13 Irrigation Districts participating in this program receive assistance to help cover the costs of planning, rehabilitating and expanding their irrigation distribution systems.

Investment in 1986-87:
$30 million
Investment at March 31, 1987:
$212 million

Farming For The Future
(Capital Projects Division)

1986-87 was a year of renewal and continued achievement for this successful and well-received agricultural research program. Over 200 research and demonstration projects — from work on hormones that increase milk production by 15-20 per cent to the development of new cereal and oilseed crop varieties — put this program at the leading edge of technological development. Also, more than 100 agricultural producers participated in on-farm demonstrations accelerating the transfer of new technology to the farm. During the year, Farming for the Future's mandate to support research aimed at increasing the profitability of Alberta's agricultural industry was extended for five more years to 1992.

Investment in 1986-87:
$5 million
Investment at March 31, 1987:
$39 million

Grazing Reserves Development
(Capital Projects Division)

The development of public grazing reserves in central and northern Alberta is helping to diversify and stabilize the agricultural economy. By providing beginning farmers, and those with limited land, with public reserves for livestock grazing, privately owned land may be used for cereal crop production. All work is carried out by private contractors and involves the clearing of bush land and the establishment of tame forages.

Investment in 1986-87:
$4 million
Investment at March 31, 1987:
$36 million

Prince Rupert Grain Terminal — Ridley Grain Ltd.
(Alberta Investment Division)

The Prince Rupert Grain Terminal is operated by Ridley Grain Ltd., a consortium of six major western Canadian grain handlers. The Heritage Fund's investment is in the form of first mortgage bonds. Financing was also provided for this project by members of the consortium and from the province's general revenues.

During its second year of operations, which commenced on August 1, 1986, the Prince Rupert Grain Terminal has shown improvements in all areas of operations. In the latter half of the fiscal year, the terminal has operated on a three-shift basis. This has enabled the processing of about 3.9 million tonnes or about 25% of the wheat and barley being shipped by all west coast grain terminals.

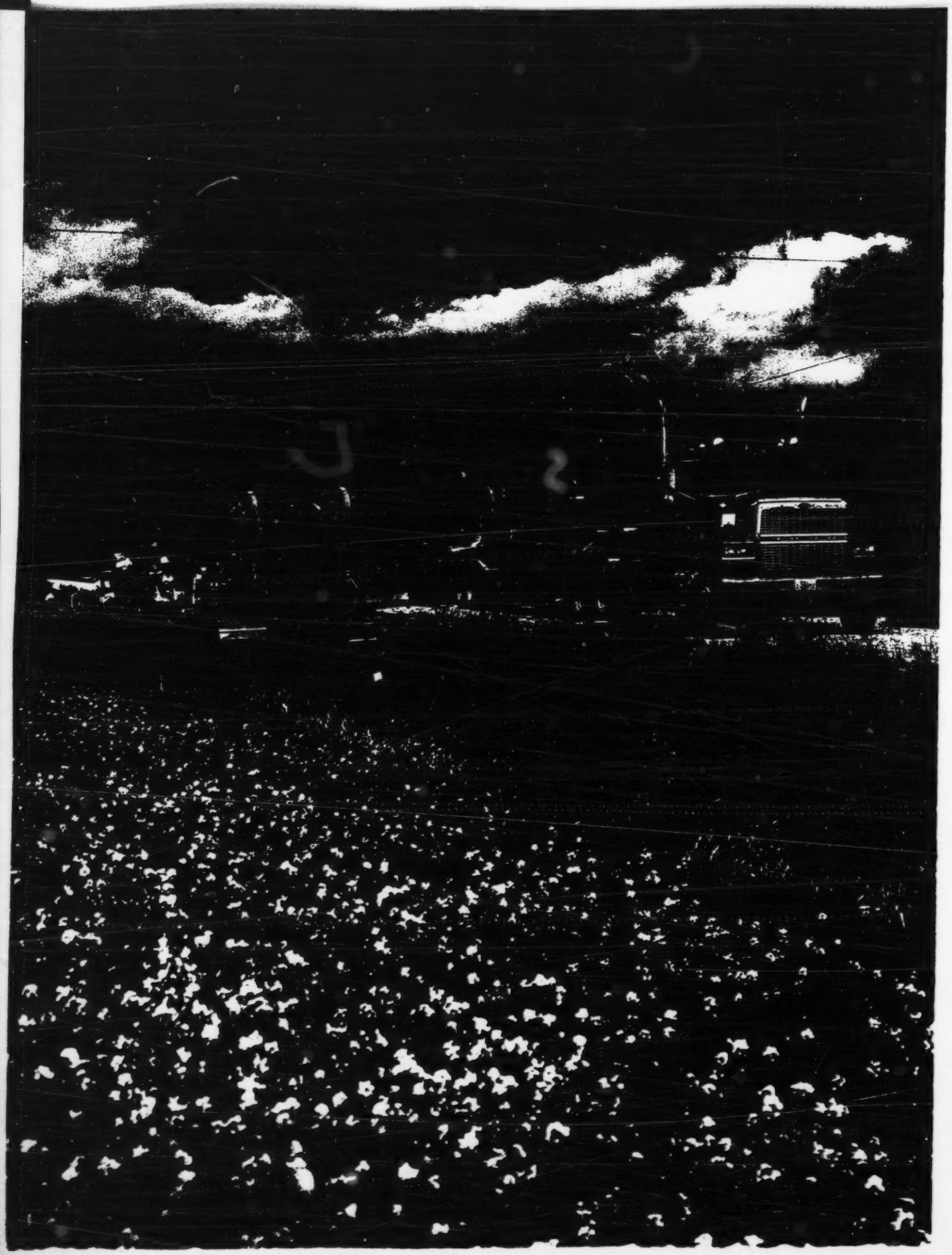
Investment at March 31, 1987:
$134 million

Rail Hopper Cars
(Capital Projects Division)

In support of the Alberta government's strong commitment to the agricultural sector, 1,000 new hopper cars were acquired in 1980-81 and 1981-82. In conjunction with the Prince Rupert Grain Terminal, the cars continue to help increase the grain carrying capacity of the railway system.

Investment at March 31, 1987:
$54 million

◁ *The Heritage Fund's investment of over $500 million in irrigation is helping to improve the productivity of land in southern Alberta and has increased the amount of land under irrigation by over 250,000 acres (102,000 hectares) since 1976.*



ECONOMIC DIVERSIFICATION

Universal Rural Private Telephone Line Service
(Capital Projects Division)

1986-87 saw the commencement of a major new program for rural Albertans. Alberta Government Telephones will extend individual line service throughout Alberta. The Heritage Fund will contribute over 75 per cent of the cost of converting approximately 100,000 party lines to individual lines. When the project is completed, virtually every resident in Alberta will enjoy private line service.

During 1986-87, over 3 800 kilometres (2,300 miles) of cable were laid, which will allow 75 telephone exchanges throughout the province to be converted to individual line service.

Investment in 1986-87: $30 million
Investment at March 31, 1987: $30 million

Alberta Opportunity Company
(Alberta Investment Division)

In addition to providing loans, loan guarantees and financial guidance to small Alberta businesses, the Company is expanding its operations to include the provision of venture funding. Venture funding allows for a financing structure more suited to the cash flows of a developing business. This new initiative is designed to promote the diversification of Alberta's economy in tourism, manufacturing and high technology. Similar to the other financial services provided by the Company, this program will give priority to small businesses throughout the province. In 1986-87, the Company made 382 loans and 6 guarantee commitments; its direct lending activity totalled $34 million.

Investment in 1986-87: $33 million
Investment at March 31, 1987: $156 million

Rig workers completing a drill pipe connection on an Alberta Energy Company funded project.

Installing cable is the first step toward providing private telephone line service for almost all Albertans under the Universal Rural Private Telephone Line Service program.

Alberta Energy Company Ltd. (AEC)
(Alberta Investment Division)

AEC was established to encourage Albertans and other Canadians to participate in the development of energy and other natural resources. The majority of AEC's 51,000 shareholders are Albertans. The Company's activities include oil and gas exploration and development, and investments in Syncrude, pipelines, forest products, steel and coal.

Record production and reduced operating costs helped offset the drop in oil prices and downward price pressure on natural gas in 1986. The year ended with production records in virtually all of the Company's operations.

To strengthen the Company's financial position and facilitate new capital investment, AEC completed an $86 million offering of common shares of which the Heritage Fund purchased $31.6 million. The proportion of the outstanding common shares owned by the Heritage Fund was 37 per cent at March 31, 1987. In 1986-87, the Heritage Fund received $5 million in dividend income.

Investment in 1986-87 (at cost): $32 million
Investment at March 31, 1987 (at cost): $87 million

Alberta Municipal Financing Corporation
(Alberta Investment Division)

The Corporation provides long-term capital financing to Alberta's municipalities, school systems and hospital districts based on its cost of obtaining funds. New lending during 1986-87 was financed by borrowing from the Canada Pension Plan Investment Fund.

Investment at March 31, 1987: $1,280 million

Syncrude
(Alberta Investment Division)

In 1986-87, the Syncrude Project near Fort McMurray produced a record 8.3 million cubic metres (52.4 million barrels) of synthetic crude oil or an average daily production of 22 700 cubic metres (143,500 barrels). However, as a result of lower prices that averaged only 54 per cent of those of the previous year, Alberta's 16.74 per cent participation in the Project earned a net profit of $33.6 million compared to a profit of $72 million in 1985-86.

The $750 million capacity addition project is on schedule for completion by the end of 1988. The province of Alberta is committed to provide $85 million from general revenues for engineering studies to be completed by the end of 1988 on a major $4 billion expansion of Syncrude.

Investment at March 31, 1987:
$483 million

Corporate Securities
(Alberta Investment Division; Energy Investment Division)

There were no new investments made in corporate securities by the Heritage Fund during 1986-87. Investments made in previous years include: common shares of the Bank of Alberta and debentures of Bralorne Resources Ltd. and IPSCO Inc., held under the Alberta Investment Division; and debentures of Luscar Ltd., held under the Energy Investment Division.

Investment at March 31, 1987:
$17 million

Food Processing Development Centre
(Capital Projects Division)

The Centre, located at Leduc, is a research and development facility committed to the advancement of food processing in Alberta and is one of the best equipped and most modern facilities of its type in Canada. The Centre has helped approximately 350 firms in the development of products ranging from muffin and cookie mix to packaging methods for shipping meat to Japan. A number of successful projects have used the Centre's resources through the entire process from initial concept development to pilot scale production and finally assistance for plant start-up and commercial production.

Investment in 1986-87:
$0.8 million
Investment at March 31, 1987:
$9 million

Vencap Equities Alberta Ltd.
(Capital Projects Division)

In operation since the autumn of 1983, Vencap provides equity-linked capital for business activities that it assesses as beneficial to Alberta's economic development. In 1986-87, over $23 million of new investments and commitments were made in six separate companies, in fields such as applied biological engineering, plastic components manufacturing and the securities industry. Vencap's total venture investment portfolio, including commitments, was almost $72 million in 24 companies at March 31, 1987. A widely held, shareholder owned corporation, Vencap operates at arm's length from the government.

The return on the Heritage Fund's investment is in the form of a percentage participation in Vencap's profit each year and totalled over $8 million in 1986-87.

Investment at March 31, 1987:
$200 million

Alberta Government Telephones Commission (AGT)
(Alberta Investment Division)

Among the many high quality services AGT provides to Albertans are local and long distance telephone service, business systems, terminal equipment and cellular telephone systems. Through its subsidiaries and joint venture partners, AGT is contributing to the diversification of Alberta's economy in the area of high technology, and is also providing many technical jobs to young Albertans.

The Commission financed its activities by borrowing in the Canadian public market during 1986-87.

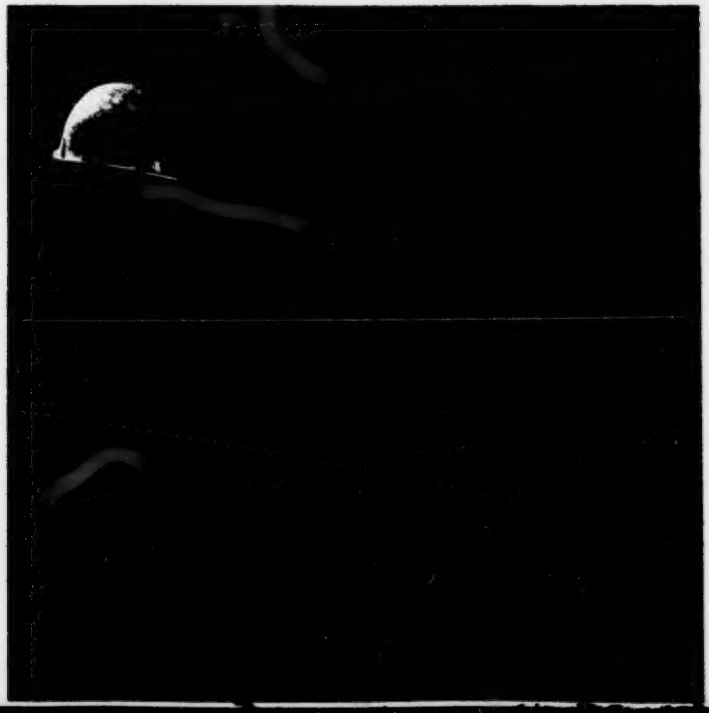
Investment at March 31, 1987:
$1,298 million

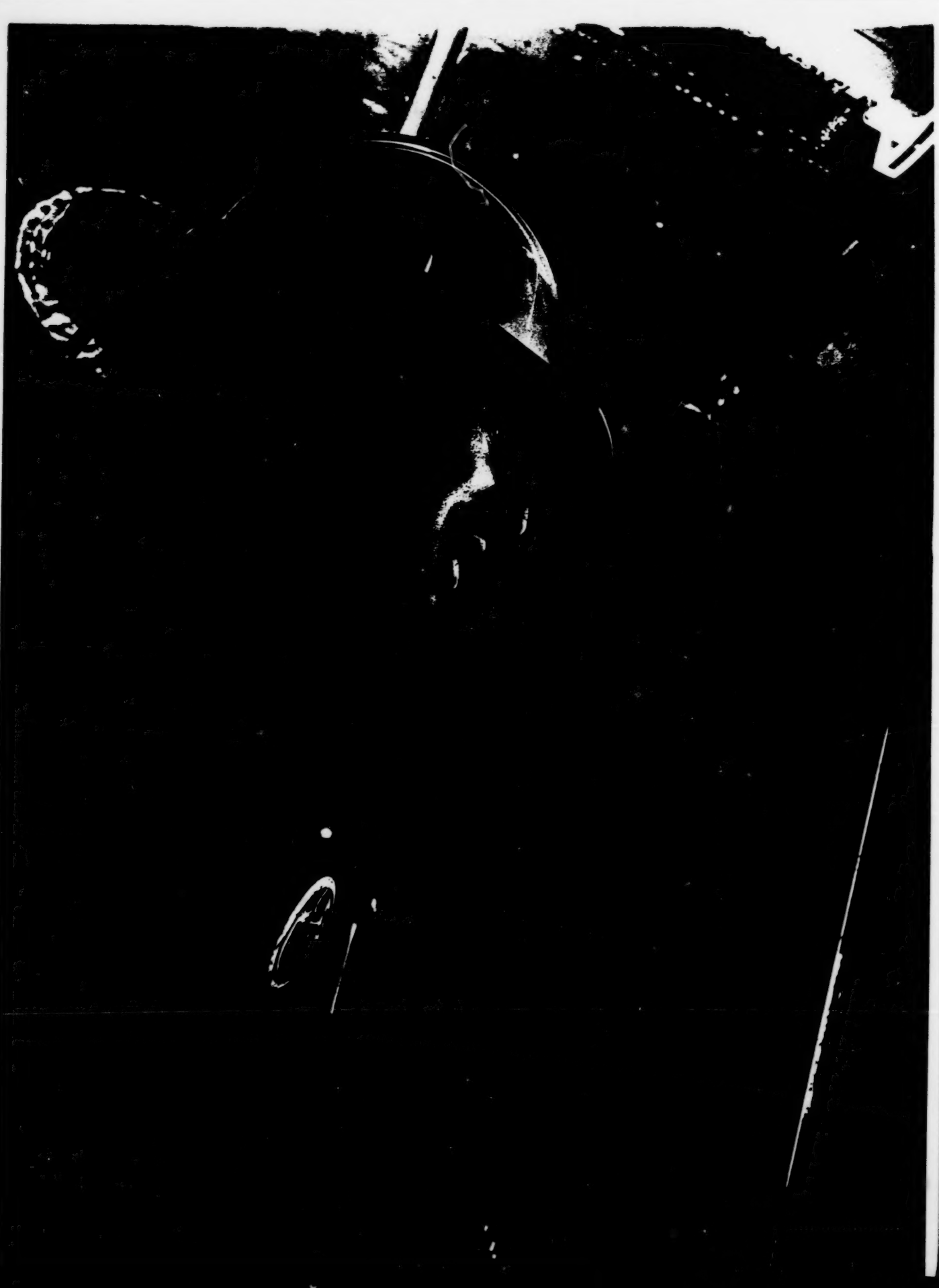
Airport Terminal Buildings
(Capital Projects Division)

Eighteen airport terminals were completed in Alberta communities between 1979-80 and 1983-84. By constructing new air terminals or upgrading existing facilities, this Heritage Fund project has developed an important link in the infrastructure serving the economic and other needs of Alberta's smaller centres.

Investment at March 31, 1987:
$16 million

The Alberta Opportunity Company provides financing to a broad range of businesses such as these students (above) who operate between college terms, and a manufacturer of pre-cast concrete products (below).





RESEARCH AND TECHNOLOGY

Alberta Oil Sands Technology and Research Authority (AOSTRA)
(Capital Projects Division)

AOSTRA helps develop technology to recover and process oil from Alberta's oil sands and heavy oil deposits and to increase production from conventional oil reserves. AOSTRA's co-operative program brings together academic, industry and government activities and resources for the development of technology for resource exploration. This close association has led to the successful transfer of technology to industry and immediate commercial applications in many cases.

Investment in 1986-87:
$31 million
Investment at March 31, 1987:
$383 million

Microchip Design and Fabrication Facilities
(Capital Projects Division)

Through small scale design and fabrication of microelectronic chips, these state-of-the-art facilities will provide research and development expertise to universities and industry and will help Alberta companies to identify and adapt microelectronics applications to their products and operations. The facilities will be particularly useful for companies implementing microelectronic technology for the first time or supplementing their use of microelectronics.

Investment in 1986-87:
$5 million
Investment at March 31, 1987:
$8 million

◁ *Following extensive studies, AOSTRA's underground test facility, a pilot project for the shaft and tunnel method of recovering bitumen from oil sands, will soon start production.*

Alberta Heritage Foundation for Medical Research Endowment Fund
(Capital Projects Division)

This $300 million endowment fund was established in 1979-80. Since then, the Foundation has helped to attract top-notch scientists and scholars to Alberta from as far away as New Zealand and has put Alberta at the leading edge of world efforts in many fields of medical research. As a result, a number of well established scientists supported by the Foundation are recognized as international authorities in their fields.

Investment at March 31, 1987:
$300 million

Applied Cancer Research
(Capital Projects Division)

During 1986-87 the Heritage Fund continued to assist the Alberta Cancer Board. By supporting both clinical and pure research, this grant program is helping to make Alberta a centre of excellence in cancer research.

Investment in 1986-87:
$5 million
Investment at March 31, 1987:
$34 million

Electronics Test Centre
(Capital Projects Division)

The Electronics Test Centre, located at the Alberta Research Council's facility in south Edmonton, was established to provide rigorous testing, evaluation and certification of virtually all types of electronic products. The Centre has provided assistance to over 200 companies involving close to 300 projects. The type of assistance offered ranges from the first stages of product design to final consumer safety testing and ultimately to marketing.

Investment in 1986-87:
$0.6 million
Investment at March 31, 1987:
$6 million

Occupational Health and Safety Research and Education
(Capital Projects Division)

Health and safety concerns in the workplace, especially in hazardous industries, are addressed by educational, research and training projects funded by this grant program. By the end of 1986-87, 129 grants had been awarded on a competitive basis to industry and worker associations, other private sector groups, educational institutions, and to researchers.

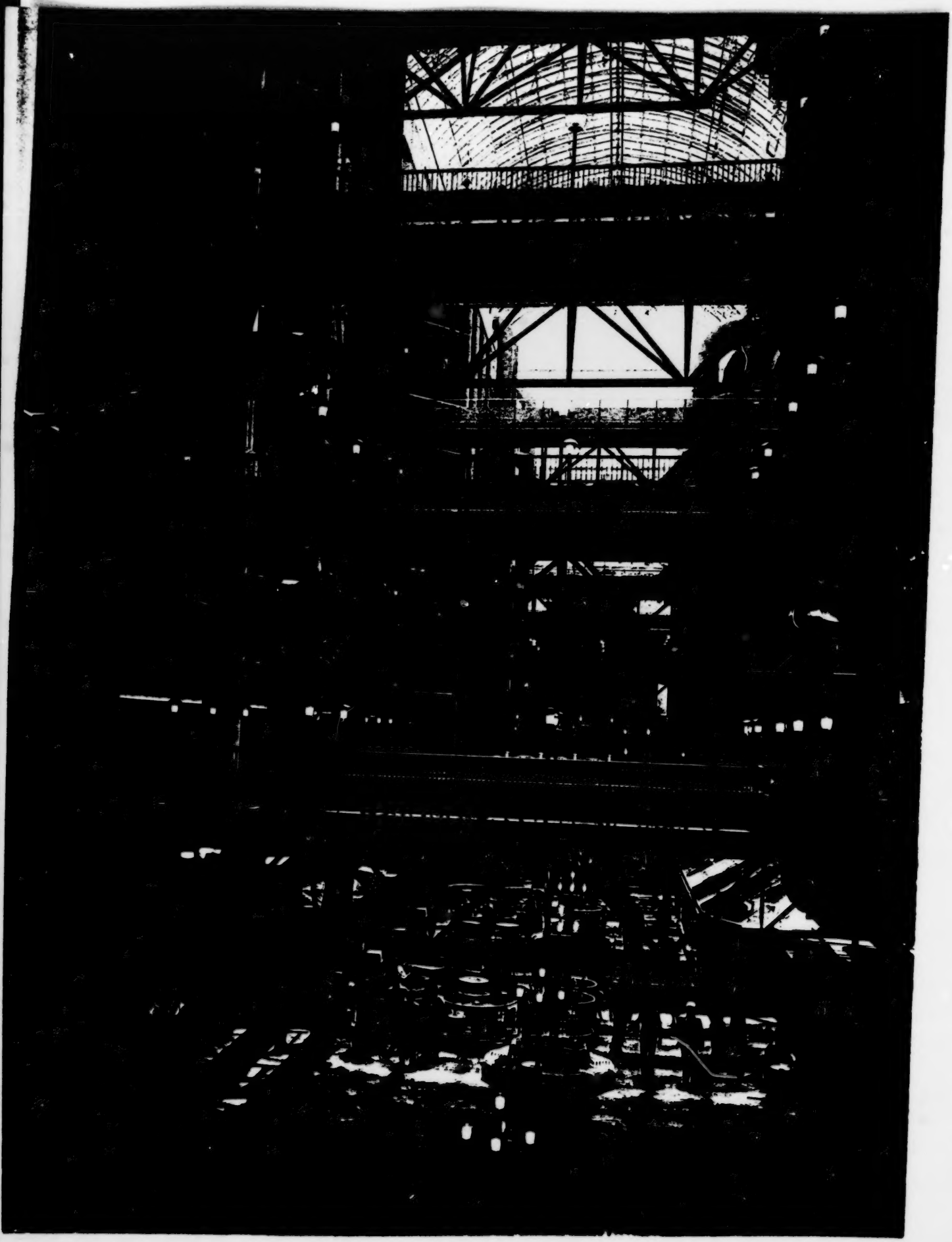
Investment in 1986-87:
$1 million
Investment at March 31, 1987:
$5 million

Work under the Occupational Health and Safety Research and Education program, in the area of fire protective clothing, will help companies select the best safety gear for their workers.

Applied Heart Disease Research
(Capital Projects Division)

Over the six year period from 1976-77 to 1981-82 the Heritage Fund provided support for applied cardiac research. Proven programs developed as a result of this project continue to be funded through the government's General Revenue Fund.

Investment at March 31, 1987:
$29 million



HEALTH CARE

Walter C. Mackenzie Health Sciences Centre
(Capital Projects Division)

Located at the University of Alberta in Edmonton, this state-of-the-art health sciences centre integrates health care, teaching and research, while promoting the physical and emotional well-being of patients. The facility includes over 800 beds and provides complete care for even the most complex medical cases. It serves the citizens of northern Alberta and in some instances the entire province. The Centre also includes educational resources such as a 400 seat theatre and a medical library housing about one million volumes.

Investment in 1986-87:
$32 million
Investment at March 31, 1987:
$388 million

Tom Baker Cancer Centre and Special Services Facility
(Capital Projects Division)

A multi-component facility located adjacent to the Foothills Provincial General Hospital in Calgary, the Centre was opened for patient care in the fall of 1981 and was fully completed in 1983-84. Its major components include an auxiliary hospital, a cancer centre, a Provincial Laboratory, special services, a hostel unit and a day service centre. It serves as a referral centre for all of southern Alberta and as an acute care centre for northwest Calgary.

Investment at March 31, 1987:
$93 million

Alberta Children's Provincial General Hospital
(Capital Projects Division)

This hospital is located in Calgary and since it was completed in 1983-84 has become a complete children's health centre. The hospital's focus is to care for the total health of its young patients, recognizing that children require special care to help them become independent and healthy functioning members of society.

The facility provides for treatment of children on both an in-patient and out-patient basis, and also includes a school which provides a full range of educational services for children.

Investment at March 31, 1987:
$40 million

The Walter C. Mackenzie Health Sciences Centre is a highly sophisticated facility that provides world class health care services.

◁ *The atrium in Phase Two of the Walter C. Mackenzie Health Sciences Centre.*

EDUCATION

Alberta Heritage Scholarship Fund
(Capital Projects Division)

This program was established in 1981-82 with an initial endowment of $100 million. At March 31, 1987 the investment earnings of the Fund had provided $49 million worth of various scholarships and awards for more than 34,000 Albertans of all ages. While the majority of the scholarships awarded are for academic achievement at either the secondary or post-secondary level, a number are also given for artistic or athletic excellence, and as incentives for further career or personal development.

Investment at March 31, 1987:
$100 million

Library Development
(Capital Projects Division)

This four year project supported the upgrading and expansion of library collections of all Alberta public colleges and universities. At the time the project was completed in 1982-83, more than 600,000 volumes of library materials had been acquired.

Investment at March 31, 1987:
$9 million

Heritage Learning Resources
(Capital Projects Division)

In an effort to increase the knowledge of Alberta students regarding their province and country, between 1979-80 and 1980-81, the Heritage Fund supported the development and production of six sets of learning materials dealing with the history, geography and heritage of Alberta and Canada. Students in all of Alberta's elementary and secondary schools have access to the learning materials pertaining to their grade level.

Investment at March 31, 1987:
$9 million

HOUSING

Alberta Mortgage and Housing Corporation
(Alberta Investment Division)

The Alberta Mortgage and Housing Corporation assists Albertans by constructing rental housing for senior citizens and lower income Albertans and by providing mortgage loans to help make affordable rental and ownership housing in the private market available to lower income Albertans.

The Corporation's new Special Purpose Housing Program committed $2.5 million for subsidized mortgage financing to non-profit groups to develop 80 housing units for people with special housing requirements, such as the mentally and physically disabled, victims of family violence, and others.

Nearly $30 million was committed to provide 397 subsidized rental housing units throughout Alberta to senior citizens. Under the Alberta Family Home Purchase Program, the Corporation committed nearly $15 million for mortgage financing which enabled 355 Alberta families to purchase their own homes.

Investment in 1986-87:
$188 million
Investment at March 31, 1987:
$3,396 million

ENVIRONMENT

Irrigation Headworks and Main Irrigation Systems Improvement
(Capital Projects Division)

As an integral part of our broad water management policy, this program supports the rehabilitation, upgrading or replacement of existing irrigation headworks and delivery systems and the development of new water storage and delivery systems.

In the past year, construction to enlarge and rehabilitate the Lethbridge Northern Irrigation District main canal and the St. Mary River Irrigation District main canal continued. Approximately three-quarters of the work on each of these canals was completed by year end. Also, construction of the Forty Mile Coulee Reservoir, near Bow Island, progressed well during 1986-87.

Investment in 1986-87:
$60 million
Investment at March 31, 1987:
$315 million

Lesser Slave Lake Outlet
(Capital Projects Division)

With the 1983-84 completion of outlet facilities to help stabilize lake levels, the perennial problem of flooding in the communities and agricultural lands surrounding Lesser Slave Lake has been resolved.

Investment at March 31, 1987:
$3 million

Paddle River Basin Development
(Capital Projects Division)

The control of damage caused by the flooding of the Paddle River and the provision of an assured water supply for the area are vital and integral components of Alberta's water management program. To achieve these goals, a dam 30 metres (98 feet) high has been constructed on the river's upper reaches. Related works include dykes, flood free road systems and channel improvements in the flood plain area. The resulting reservoir will also help foster the future development of recreational facilities.

Investment in 1986-87:
$0.5 million
Investment at March 31, 1987:
$42 million

Maintaining Our Forests
(Capital Projects Division)

During the past year, 600 hectares (1,480 acres) were site prepared, and more than 4.5 million seedlings were planted on over 3 400 hectares (8,400 acres), continuing an effort to re-establish and improve the productivity of coniferous forests damaged by fire, industry and non-forestry zoning. In addition, maintenance and monitoring activities were continued on stands previously established under this program. This Heritage Fund project is making an important contribution to the maintenance and renewal of Alberta's forest resource.

Investment in 1986-87:
$0.7 million
Investment at March 31, 1987:
$25 million

Alberta Reforestation Nursery
(Capital Projects Division)

Since it became operational in 1980-81, the Pine Ridge Forest Nursery has been a valuable source of conifer seedling supply for both government and industry. During the 1986 season, almost 25 million seedlings were shipped from the nursery and used to establish new forests on harvested Crown land, burned-over land and potentially productive areas throughout Alberta. Capital funding for this project was completed in 1984-85.

Investment at March 31, 1987:
$15 million

Land Reclamation
(Capital Projects Division)

The principal objective of this project is to reclaim land not governed at the time of disturbance by the Land Surface Conservation and Reclamation Act. These disturbances are the result of man-made activities. Work under this project has focussed primarily on restoring abandoned garbage dumps, sewage lagoons, gravel pits and mine sites throughout Alberta. Since the project's inception, over 1,100 sites have been reclaimed. Most municipalities throughout the province have participated in the project, with a number having utilized the program for more than one project. As well, funds continue to be committed in support of research projects concerned with improving land reclamation methods.

Investment in 1986-87:
$3 million
Investment at March 31, 1987:
$29 million

Preservation of the natural environment has been a prime concern during development of the Kananaskis Country Recreation Development.

◁ *The Municipal Recreation/Tourism Areas program has helped volunteer groups construct facilities that will enhance the recreational opportunities for rural Albertans as well as promoting tourism.*

Kananaskis Country Recreation Development
(Capital Projects Division)

Since 1978, this 4 100 square kilometre (1,600 square mile) multi-use area, with emphasis on recreation facilities and activities, has been developed with the support of the Heritage Fund. Throughout development, natural resource conservation and wildlife enhancement have been major considerations.

Kananaskis Country has more than 3,000 automobile accessible campsites within 29 campgrounds, including the Mount Kidd Recreational Vehicle Park; 12 group campgrounds and more than 75 picnic areas. There is a world class 36-hole golf course; extensive trail systems for hiking, cross-country skiing, bicycling, mountain biking, snowmobiling, off-highway vehicles and horse back riding; interpretive trails and exhibits as well as extensive visitor services.

Due to popular demand, four new cabins were constructed at William Watson Lodge. The overnight accommodation capacity at this facility for senior citizens and the handicapped has now been more than doubled to 108 persons. During the year construction also progressed well at the Kananaskis Village, the first hotel type accommodation within Kananaskis Country. The village infrastructure and the Village Centre Building are now substantially completed.

Investment at 1986-87:
$9 million
Investment at March 31, 1987:
$221 million

Municipal Recreation/ Tourism Areas
(Capital Projects Division)

The Municipal Recreation/Tourism Areas program, announced during 1986-87, will provide assistance to municipalities in the development, upgrading and operation of outdoor recreation facilities as a means of creating new recreation and tourism opportunities for Albertans. Capital grants are made available to develop or upgrade outdoor recreation facilities such as campsites, picnic areas, boat launches and docks, beaches, park developments and other basic outdoor recreation facilities. In 1986-87 this grant program, in conjunction with support from local labour and volunteers, developed 24 sites.

Investment in 1986-87:
$3 million
Investment at March 31, 1987:
$3 million

Capital City Recreation Park
(Capital Projects Division)

This unique 1 200 hectare (2,960 acre) park, located in Edmonton and the neighboring County of Strathcona, joins fourteen regional parks by cross-river bridges and 55 kilometres of bicycle and hiking paths. It provides a broad range of leisure opportunities such as a family recreation centre, picnic and nature areas, fountains and a fish pond. It also includes a ski lodge and eight science pavilions featuring science and technology displays and archaeological artifacts. Only the acquisition of land and right of ways to connect trail systems and to consolidate the park remain to complete the project.

Investment in 1986-87:
$0.1 million
Investment at March 31, 1987:
$42 million

Urban Parks
(Capital Projects Division)

The Urban Parks program was completed in 1986-87. It provided five cities with grant funds to buy land and to plan and develop park space. As well as enhancing the outdoor recreational opportunities available to residents of these cities, these parks help preserve the natural environment. Parks in Lloydminster, Medicine Hat, Lethbridge, Red Deer, and Grande Prairie, will continue to be enjoyed by Albertans for many years to come.

Investment in 1986-87:
$4 million
Investment at March 31, 1987:
$87 million

Fish Creek Provincial Park
(Capital Projects Division)

Fish Creek Provincial Park, one of the first urban provincial parks in Canada, was completed in 1986-87. This 1 330 hectare (3,200 acre) park, located in south Calgary, includes facilities such as a visitor centre offering interpretive programs, an environmental education centre, the Sikome Lake recreation area which includes a 3.6 hectare (nine acre) swimming and skating lake, an equestrian centre, and a number of amphitheatres, picnic areas and historical sites.

Investment in 1986-87:
$0.1 million
Investment at March 31, 1987:
$45 million

OTHER INVESTMENTS

These investments assist in diversifying the portfolio of the Fund and provide Albertans with significant financial returns.

Canada Investment Division

Through the Canada Investment Division, the Heritage Fund has invested in debentures issued by the governments of six other Canadian provinces or their agencies. Loans were made at market rates, and interest rates on these debentures range from 9.5 per cent to 17.8 per cent. Lending under the Canada Investment Division has been suspended since March, 1982, to help ensure that funds are available to meet priority needs in Alberta.

During 1986-87, interest on these loans made in previous years contributed $237 million toward the Fund's investment earnings. Scheduled principal repayments totalling $8 million were also received during 1986-87.

Investment at March 31, 1987: $1,857 million

Commercial Investment Division

The primary objective of the Commercial Investment Division is to earn a commercial rate of return in keeping with the Heritage Fund's savings objective. The Division's emphasis on equity investments helps diversify the Fund's overall portfolio. The equity portfolio represents a broad range of Canadian industrial sectors and public companies. Investments are managed on a passive basis and are limited to no more than five per cent of the shares outstanding of any one company.

The Division was started in the 1981-82 fiscal year with an allocation of $200 million. During the latter half of 1984-85, the Investment Committee decided to permit the $200 million limit on the Division to increase by the amount of net investment income earned by the Division.

The Division contributed $17 million in dividends, interest and realized capital gains to the Heritage Fund's investment income in 1986-87. At year end, the market value of the portfolio exceeded its cost by $246 million.

Investment (net) in 1986-87: $15 million
Investment at March 31, 1987: $233 million

Cash and Marketable Securities

Funds which are not immediately required for investment in any of the five Investment Divisions are invested in high quality deposits and debt securities. Holdings increased during the year from $1,775 million at March 31, 1986, to $2,253 million at March 31, 1987.

At March 31, 1987, the portfolio consisted primarily of $2,248 million of short-term money market securities and deposits in the province's Consolidated Cash Investment Trust Fund. Of this amount, $967 million was short-term notes of the province being used as interim financing for deposits with lenders under the Alberta Farm Credit Stability Program and the Small Business Term Assistance Plan.

The Alberta Farm Credit Stability Program and the Alberta Small Business Term Assistance Plan were established in 1986 to facilitate the provision of long-term fixed rate financing to Alberta farmers and small businesses respectively.

The average yield to maturity on the Cash and Marketable Securities portfolio was 7.5 per cent at March 31, 1987, down from 10.4 per cent a year earlier, reflecting the drop of over three per cent in Canadian short-term interest rates during the year. The average term to maturity on the short-term money market securities was shortened to 29 days from 74 days a year earlier.

Cash and Marketable Securities earned a rate of return based on amortized cost of 8.7 per cent and contributed $168 million to the Fund's investment income during the fiscal year.

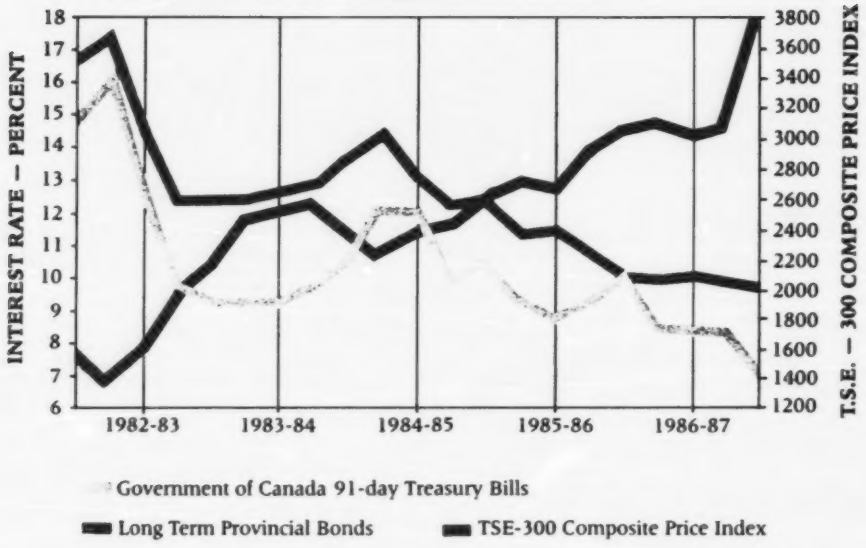
Investment (net) in 1986-87: $477 million
Investment at March 31, 1987: $2,253 million

Rates of Return and Yields on Investments, 1986-87

	Rate of Return on Amortized Cost	Yield to Maturity on Amortized Cost of Fixed Income Securities
	(%)	(%)
Canada Investment Division	13.1	13.1
Alberta Investment Division	12.7	12.6
Energy Investment Division	15.3	14.6
Commercial Investment Division	7.0[a]	7.1[b]
Cash and Marketable Securities	8.7	7.5
	12.0	11.7

a) Does not include the unrealized appreciation in market value of shares.
b) Money market securities only.

Trends in Yields on Canadian Securities



FINANCIAL SUMMARY

Alberta Heritage Savings Trust Fund
A Ten Year Review: 1977-78 to 1986-87

(Millions of Dollars)

	1986-87	1985-86	1984-85	1983-84
Transfer of Non-Renewable Resource Revenue to the Heritage Fund	216	685	737	719
Net Income Earned on the Fund's Investments	1,445	1,667	1,575	1,467
Subtract				
Income Transferred to Budgetary Revenues	1,445	1,667	1,575	1,469[a]
Expenditures on Non-income Earning Capital Projects Division Projects (Deemed Assets)	227	240	228	330
New Funds Available to the Heritage Fund for Income Earning Investments	(11)	445	509	387
Increase (Decrease) in Payables	40	(3)	(11)	(8)
Add				
Financial Assets of the Heritage Fund at the Beginning of the Year	12,716	12,274	11,776	11,397
Financial Assets of the Heritage Fund at the End of the Year	12,745	12,716	12,274	11,776
Consisting of				
Alberta Investment Division[b]	7,847	8,177	8,151	8,079
Capital Projects Division[c]	200	200	200	200
Energy Investment Division	9	16	24	25
Canada Investment Division	1,857	1,864	1,870	1,896
Commercial Investment Division	233	217	201	199
Cash and Marketable Securities and Other Assets	2,599	2,242	1,828	1,377
Financial Assets	12,745	12,716	12,274	11,776
Rate of Return on Amortized Cost[d] (per cent)	12.0	14.3	13.7	13.4

a) Net investment income before deducting administrative expenses. Pursuant to an amendment to the Heritage Fund Act, effective April 1, 1984, the transfer was changed to net income after deducting administrative expenses.

b) Prior to 1979-80 includes investments in Alberta Municipal Financing Corporation and the Alberta Government Telephones Commission held by the Heritage Fund and transferred to the Alberta Investment Division in that year.

c) Investment in Vencap Equities Alberta Ltd.

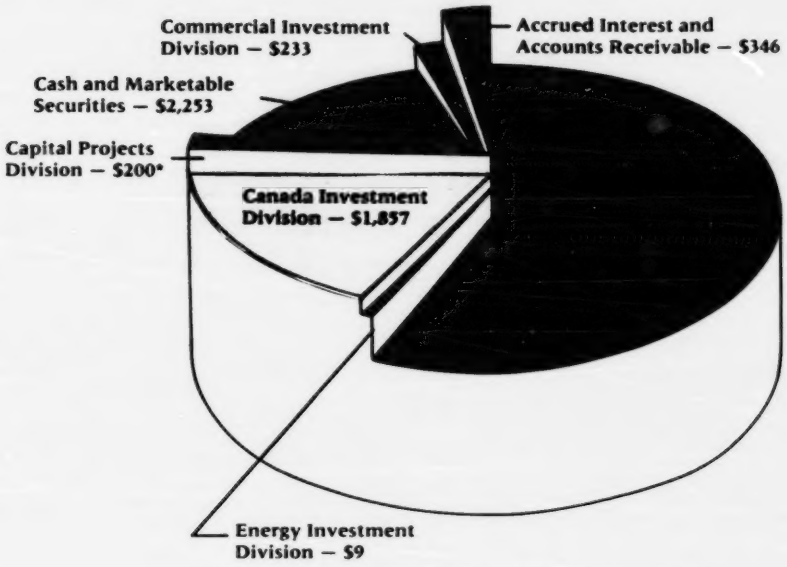
d) Rate of return on the Fund's investments is calculated using the time weighted method.

1982-83	1981-82	1980-81	1979-80	1978-79	1977-78
1,370	1,434	1,444	1,332	1,060	931
1,482	1,007	724	343	294	194
866[a]	—	—	—	—	—
296	349	227	478	132	87
1,690	2,092	1,941	1,197	1,222	1,038
7	(10)	(9)	39	(23)	31
9,700	7,618	5,686	4,450	3,251	2,182
11,397	9,700	7,618	5,686	4,450	3,251
8,158	6,335	4,524	3,140	3,167	2,276
—	—	—	—	—	—
25	25	25	—	—	—
1,903	1,909	1,492	929	270	96
199	189	—	—	—	—
1,112	1,242	1,577	1,617	1,013	879
11,397	9,700	7,618	5,686	4,450	3,251
13.9	12.6	10.8	10.1	9.5	8.6

Composition of Financial Assets

At March 31, 1987 — Millions of Dollars

Total Financial Assets — $12,745

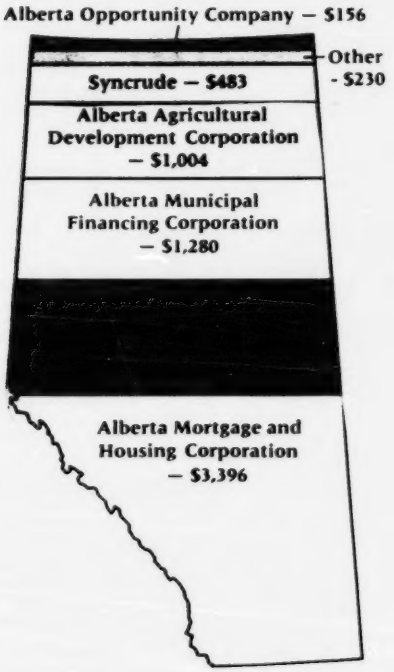

Commercial Investment Division — $233
Accrued Interest and Accounts Receivable — $346
Cash and Marketable Securities — $2,253
Capital Projects Division — $200*
Canada Investment Division — $1,857
Energy Investment Division — $9

* Total investments under the Capital Projects Division amounted to $2,829 million of which $2,629 million were deemed assets.

Alberta Investment Division Assets

Composition at March 31, 1987 — Millions of Dollars

Total Assets — $7,847 Million


Alberta Opportunity Company — $156
Other - $230
Syncrude — $483
Alberta Agricultural Development Corporation — $1,004
Alberta Municipal Financing Corporation — $1,280
Alberta Mortgage and Housing Corporation — $3,396

ALBERTA INVESTMENT DIVISION

Summary of Investment Transactions For the Year Ended March 31, 1987

	Cost March 31, 1986	Purchases	Amortization	Disposals, Repayments and Redemptions	Cost March 31, 1987
			(millions of dollars)		
Investments in Provincial Corporations:					
Alberta Agricultural Development Corporation Debentures					
Investments	**1,041.2**	**–**	**–**	**37.4**	**1,003.8**
Alberta Government Telephones Commission Debentures					
Investments	**1,472.7**	**–**	**0.7**	**175.0**	**1,298.4**
Alberta Mortgage and Housing Corporation Debentures					
Investments at March 31, 1986	3,387.4		–	179.2	3,208.2
Investments made during 1986-87:					
9.51% Feb. 16, 2006		10.0	–	–	10.0
9.51% Mar. 16, 2006		15.0	–	–	15.0
9.69% Apr. 1, 2006		15.0	–	–	15.0
9.95% Jun. 16, 2006		15.0	–	–	15.0
9.54% Jul. 15, 2006		15.0	–	–	15.0
9.71% Sep. 15, 2006		30.0	–	–	30.0
9.99% Nov. 17, 2006		25.0	–	–	25.0
9.53% Dec. 15, 2006		20.0	–	–	20.0
8.62% Dec. 15, 2006		5.0	–	–	5.0
7.69% Feb. 16, 2007		20.0	–	–	20.0
9.74% Apr. 1, 2011		5.0	–	–	5.0
10.00% Jul. 2, 2011		5.0	–	–	5.0
10.03% Oct. 1, 2011		5.0	–	–	5.0
9.67% Jan. 2, 2012		3.0	–	–	3.0
	3,387.4	**188.0**	**–**	**179.2**	**3,396.2**
Alberta Municipal Financing Corporation Debentures					
Investments	**1,456.0**	**–**	**1.6**	**178.0**	**1,279.6**
Alberta Opportunity Company Debentures					
Investments at March 31, 1986	162.4		–	39.8	122.6
Investments made during 1986-87:					
8.85% Dec. 15, 1991		5.0	–	–	5.0
8.36% Jan. 31, 1992		3.0	–	–	3.0
8.45% Feb. 28, 1992		5.0	–	–	5.0
8.06% Mar. 31, 1992		20.0	–	–	20.0
	162.4	**33.0**	**–**	**39.8**	**155.6**
Total Provincial Corporations	**7,519.7**	**221.0**	**2.3**	**609.4**	**7,133.6**
Other Alberta Investment Division Investments:					
Bralorne Resources Ltd. debenture 12.875% Aug. 15, 1995	3.9	–	–	0.4	3.5
IPSCO Inc. 14.50% May 15, 1995	3.8	–	–	0.4	3.4
Ridley Grain Ltd. debenture 11.00% Jul. 31, 2015	134.0	–	–	–	134.0
Alberta Energy Company Ltd. common shares	55.7	31.6	–	–	87.3
Bank of Alberta common shares	1.6	–	–	–	1.6
Participation in Syncrude Project	458.6	158.2	–	133.5	483.3
Total	**8,177.3**	**410.8**	**2.3**	**743.7**	**7,846.7**

ENERGY INVESTMENT DIVISION

Summary of Investment Transactions For the Year Ended March 31, 1987

	Cost March 31, 1986	Purchases	Disposals, Repayments and Redemptions	Cost March 31, 1987
	(millions of dollars)			
Luscar Ltd. debenture				
13.875% Dec. 2, 1989	**16.3**	**–**	**7.5**	**8.8**

COMMERCIAL INVESTMENT DIVISION

Summary of Investment Transactions For the Year Ended March 31, 1987

	Cost March 31, 1986	Purchases	Amortization and Writedown	Disposals, Repayments and Redemptions	Cost March 31, 1987	Market Value March 31, 1987
	(millions of dollars)					
Money market securities	8.8	77.6	0.8	77.9	9.3	9.3
Convertible bonds	15.0	–	–	15.0	–	–
Common and preferred shares	193.5	46.5	(5.8)	10.8	223.4	469.4
Total	**217.3**	**124.1**	**(5.0)**	**103.7**	**232.7**	**478.7**

CANADA INVESTMENT DIVISION

Summary of Investment Transactions For the Year Ended March 31, 1987

	Cost March 31, 1986	Purchases	Amortization	Repayments and Redemptions	Cost March 31, 1987	Par Value March 31, 1987
	(millions of dollars)					
Province of Manitoba	259.0	–	0.2	–	259.2	260.0
Province of New Brunswick	245.1	–	0.3	–	245.4	247.0
New Brunswick Electric Power Commission	133.5	–	0.1	–	133.6	135.0
	378.6	–	0.4	–	379.0	382.0
Province of Newfoundland	154.4	–	0.2	–	154.6	155.0
Newfoundland and Labrador Hydro	148.2	–	0.2	–	148.4	150.0
Newfoundland Municipal Financing Corporation	72.5	–	0.1	1.7	70.9	71.5
	375.1	–	0.5	1.7	373.9	376.5
Province of Nova Scotia	232.3	–	0.1	–	232.4	235.0
Nova Scotia Municipal Finance Corporation	52.6	–	0.1	4.6	48.1	48.3
Nova Scotia Power Corporation	123.9	–	0.1	–	124.0	125.0
	408.8	–	0.3	4.6	404.5	408.3
Province of Prince Edward Island	65.0	–	0.1	2.0	63.1	64.0
Hydro-Quebec	377.1	–	0.4	–	377.5	385.0
Total	**1,863.6**	**–**	**1.9**	**8.3**	**1,857.2**	**1,875.8**

Alberta Heritage Savings Trust Fund

FINANCIAL STATEMENTS

March 31, 1987

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Auditor's Report

To the Provincial Treasurer

I have examined the balance sheet of the Alberta Heritage Savings Trust Fund as at March 31, 1987 and the statements of income, retained earnings, transfers, amounts expended and fund equity, changes in financial position and Capital Projects Division amounts expended for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

The practice of including deemed assets and deemed equity represented by deemed assets on the balance sheet is not appropriate because deemed assets are not assets of the Fund nor is the presentation in accordance with generally accepted accounting principles. Deemed assets represent amounts expended which are not recoverable by the Fund and where assets do exist, they belong to other organizations. Although it has been interpreted by management that the Alberta Heritage Savings Trust Fund Act requires the disclosure of deemed assets on the balance sheet, the financial position of the Fund would be better understood if the deemed assets and deemed equity represented by deemed assets which both amount to $2,629,287,000 were not included.

In my opinion, except that the inclusion of deemed assets and deemed equity represented by deemed assets on the balance sheet is not appropriate as explained in the preceding paragraph, these financial statements present fairly the financial position of the Fund as at March 31, 1987 and the results of its operations, the changes in its financial position and the amounts expended within the Capital Projects Division for the year then ended, in accordance with the disclosed basis of accounting, as described in Note 2 to the financial statements applied on a basis consistent with that of the preceding year.

Donald D. Salmon

Edmonton, Alberta
June 19, 1987

C.A.
Auditor General

Alberta Heritage Savings Trust Fund

Balance Sheet

March 31, 1987

(thousands of dollars)

ASSETS	1987	1986
Assets:		
Cash and marketable securities, Schedule 1	$ 2,252,509	$ 1,775,012
Accrued interest and accounts receivable	346,566	449,800
Due from the General Revenue Fund	—	16,988
Canada Investment Division investments, Schedule 2	1,857,220	1,863,587
Alberta Investment Division investments, Schedule 3	7,846,737	8,177,305
Energy Investment Division investments, Schedule 4	8,750	16,250
Commercial Investment Division investments, Schedule 5	232,752	217,272
Capital Projects Division investments, Schedule 6	199,997	199,998
	$12,744,531	$12,716,212
Deemed Assets:		
Capital Projects Division investments, Schedule 7	$ 2,629,287	$ 2,402,481

LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable	$ 48,089	$ 23,512
Due to the General Revenue Fund	14,157	—
	62,246	23,512
Fund Equity	12,682,285	12,692,700
	$12,744,531	$12,716,212
Deemed equity represented by deemed assets	$ 2,629,287	$ 2,402,481

The accompanying notes are part of these financial statements.

Alberta Heritage Savings Trust Fund

Statement of Income, Retained Earnings, Transfers, Amounts Expended and Fund Equity

For the Year Ended March 31, 1987

(thousands of dollars)

	1987	1986
Income and Retained Earnings:		
Investment income before the undernoted	$ 1,440,661	$ 1,563,469
Net gain on disposals of investments	11,084	111,089
Write-off and write-down of investments	(5,801)	(6,249)
Net investment income (Note 4)	1,445,944	1,668,309
Administrative expenses (Note 5)	1,038	1,446
Net income	1,444,906	1,666,863
Transfer to the General Revenue Fund (Note 6)	1,444,906	1,666,863
Net increase in retained earnings	—	—
Retained earnings at beginning and end of year	3,262,247	3,262,247
Transfers from the General Revenue Fund:		
Non-renewable resource revenue transfer (Note 7)	216,391	684,637
Cumulative transfers at beginning of year	11,832,934	11,148,297
Cumulative transfers at end of year	12,049,325	11,832,934
Amounts Expended under the Capital Projects Division:		
Amounts expended during the year	(226,806)	(240,088)
Cumulative amounts expended at beginning of year	(2,402,481)	(2,162,393)
Cumulative amounts expended at end of year	(2,629,287)	(2,402,481)
Fund equity at end of year	$12,682,285	$12,692,700

Alberta Heritage Savings Trust Fund

Statement of Changes in Financial Position

For the Year Ended March 31, 1987

(thousands of dollars)

	1987	1986
Operating transactions:		
Net income	$ 1,444,906	$ 1,666,863
Non-cash items:		
Net gain on disposals of investments	(11,084)	(111,089)
Amortization of discount/premium on investments, net	(5,080)	(5,996)
Write-off and write-down of investments	5,801	6,249
Decrease (increase) in receivables	120,222	(19,900)
Increase (decrease) in payables	38,734	(2,196)
Cash provided by operating transactions	1,593,499	1,533,931
Investing transactions:		
Proceeds from disposals, repayments and redemptions of investments:		
Canada Investment Division	8,300	8,300
Alberta Investment Division	743,683	619,991
Energy Investment Division	7,500	7,500
Commercial Investment Division	114,784	47,753
Capital Projects Division	1	1
Investments:		
Alberta Investment Division	(410,840)	(543,840)
Commercial Investment Division	(124,109)	(57,445)
Cash provided by investing transactions	339,319	82,260
Transfers and Amounts Expended:		
Non-renewable resource revenue transfer from the General Revenue Fund	216,391	684,637
Transfer to the General Revenue Fund	(1,444,906)	(1,666,863)
Capital Projects Division amounts expended	(226,806)	(240,088)
Cash applied to transfers and amounts expended	(1,455,321)	(1,222,314)
Increase in cash and marketable securities	477,497	393,877
Cash and marketable securities at beginning of year	1,775,012	1,381,135
Cash and marketable securities at end of year	$ 2,252,509	$ 1,775,012

Alberta Heritage Savings Trust Fund

Capital Projects Division
Statement of Amounts Expended

For the Year Ended March 31, 1987
(thousands of dollars)

Department/Project	Amounts Authorized[a]	Amounts Expended	Unexpended (Over Expended)
Agriculture			
Farming For The Future	$ 5,000	$ 4,711	$ 289
Food Processing Development Centre	885	847	38
Irrigation Rehabilitation and Expansion	30,000	29,907	93
Community and Occupational Health			
Occupational Health and Safety Research and Education	2,000	1,414	586
Energy			
Alberta Oil Sands Technology and Research Authority	31,400	31,400	—
Solar/Wind Energy Research	1,000	—	1,000
Environment			
Irrigation Headworks and Main Irrigation Systems Improvement	60,000	59,904	96
Land Reclamation	3,000	2,835	165
Paddle River Basin Development	1,050	469	581
Forestry, Lands and Wildlife			
Grazing Reserves Development	5,291	4,409	882
Maintaining Our Forests	745	724	21
Hospitals and Medical Care			
Applied Cancer Research	4,923	4,806	117
Walter C. Mackenzie Health Sciences Centre	33,500	32,013	1,487
Public Works, Supply and Services			
Capital City Recreation Park	850	67	783
Fish Creek Provincial Park (Land)	350	76	274
Recreation and Parks			
Kananaskis Country Recreation Development	11,872	9,446	2,426
Municipal Recreation/Tourism Areas	4,000	3,475	525
Urban Parks	4,256	4,242	14
Technology, Research and Telecommunications			
Electronics Test Centre	565	565	—
Microchip Design and Fabrication Facilities	5,496	5,496	—
Transportation and Utilities			
Universal Rural Private Telephone Line Service	30,000	30,000	—
	$236,183	$226,806	$ 9,377

(a) Amounts authorized under the Appropriation (Alberta Heritage Savings Trust Fund, Capital Projects Division) Act, 1986-87 have been reduced by liabilities of the prior fiscal year which exceeded the available authority in the case of Food Processing Development Centre in the amount of twenty thousand dollars.

Note 1 Authority

The Alberta Heritage Savings Trust Fund operates under the authority of the Alberta Heritage Savings Trust Fund Act, Chapter A-27, Revised Statutes of Alberta 1980, as amended.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(i) These financial statements have been prepared in accordance with generally accepted accounting principles, except as follows:

(a) The investment in Alberta Energy Company Ltd., which represents 37% of the total number of issued and outstanding voting shares of the company, included in the Alberta Investment Division is valued at cost. Income is recognized only to the extent that dividends are received or receivable. The book value of the investment is not adjusted for the Fund's pro rata share of retained earnings of the company.

(b) Capital Projects Division investments represent the aggregate net amount expended from November 4, 1976 to March 31, 1987 under the authority of "Appropriation Acts" passed pursuant to subsection 6(2)(a) of the Alberta Heritage Savings Trust Fund Act. These investments are deemed to be assets of the Trust Fund with a value equal to the amounts expended pursuant to subsection 6(8)(a) of the Alberta Heritage Savings Trust Fund Act (see Note 3). Amounts expended which are recoverable by the Fund are shown separately as assets of the Fund. Amounts expended, not recoverable by the Fund are included in the determination of Fund Equity and are shown as deemed assets on the balance sheet.

(ii) Other significant accounting policies are as follows:

(a) Securities included in the Canada Investment Division, the Alberta Investment Division, the Energy Investment Division and the Commercial Investment Division are valued at cost. Cost includes the amount of applicable amortization of discount or premium using the straight line method over the life of the securities.

(b) The participation in the Syncrude Project, included in the Alberta Investment Division, is accounted for on the equity basis.

(c) Bonds, bond coupons and residuals and mid-term money market securities included in marketable securities are valued at cost or market value, whichever is lower, on an aggregate basis. Short-term money market securities are valued at cost. Cost includes the amount of applicable amortization of discount or premium using the straight line method over the life of the securities.

(d) The cost of disposals is determined on the average cost basis. Gains and losses arising as a result of disposals and any change in the provision to adjust the cost of marketable securities to the lower of cost or market value, on an aggregate basis, are included in the determination of net investment income.

(e) Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability.

(f) Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(g) Marketable securities and payables in respect of forward exchange contracts denominated in foreign currency are translated at the current rate of exchange at the balance sheet date.

Unrealized exchange gains or losses which relate to the translation of hedged monetary assets are deferred.

Amounts deferred are included in accounts payable.

Note 3 Compliance Information

The Investment Divisions shown on the balance sheet were established pursuant to section 6 of the Alberta Heritage Savings Trust Fund Act. Investments made under each of the Capital Projects Division and the Canada Investment Division are limited to 20% of the assets of the Trust Fund. For the purpose of determining the assets of the Trust Fund to which these percentage limitations apply, the Act provides that investments in the Capital Projects Division shall be deemed to be assets of the Trust Fund with a value equal to the amounts expended, while all other assets of the Trust Fund shall be valued at book value. Compliance information with respect to these statutory limits is provided in the table below.

Capital Projects Division investments,	**1987**	**% of Assets**	**1986**	**% of Assets**
Schedule 6	**$ 199,997,000**		$ 199,998,000	
Schedule 7	**2,629,287,000**		2,402,481,000	
	2,829,284,000	**18**	2,602,479,000	17
Canada Investment Division investments,				
Schedule 2	**1,857,220,000**	**12**	1,863,587,000	12
Other assets	**10,625,068,000**	**70**	10,629,115,000	71
	$15,311,572,000	**100**	$15,095,181,000	100

Note 4 Segmented Information

Segmented information on net investment income is as follows:

Cash and marketable securities:	**1987**	1986
Deposit in the Consolidated Cash Investment Trust Fund	**$ 21,190,000**	$ 16,522,000
Money market securities, short-term and mid-term	**140,500,000**	131,767,000
Bond coupons and residuals	**2,834,000**	1,498,000
Bonds	**3,180,000**	34,787,000
Canada Investment Division investments:		
Debentures	**237,398,000**	238,417,000
Alberta Investment Division investments:		
Money market securities, mid-term	**—**	2,433,000
Debentures	**975,571,000**	1,033,704,000
Common shares	**4,952,000**	108,901,000
Participation in Syncrude Project	**33,572,000**	72,022,000
Energy Investment Division investments:		
Debenture	**1,999,000**	3,080,000
Commercial Investment Division investments:		
Money market securities, short-term	**871,000**	427,000
Convertible bonds	**3,644,000**	1,655,000
Common and preferred shares	**12,050,000**	15,400,000
Capital Projects Division investments:		
Participating debenture of Vencap Equities Alberta Ltd.	**8,183,000**	7,696,000
	$1,445,944,000	$1,668,309,000

Note 5 Administrative Expenses

	1987	1986
Expenses paid directly from the Fund pursuant to section 11(1) of the Alberta Heritage Savings Trust Fund Act	$ 90,000	$ 368,000
Other administrative expenses estimated and charged to the Fund pursuant to section 11(2) of the Alberta Heritage Savings Trust Fund Act	948,000	1,078,000
	$1,038,000	$1,446,000

Administrative expenses for the year ended March 31, 1987 relating to the Syncrude Project estimated at $594,000 (1986 — $569,000) are not included in other administrative expenses but are reflected in results of operations of the project for the year.

Administrative expenses for 1986 include an amount of $210,000 expended to communicate the role and activities of the Fund. No such expenditure was incurred during the year ended March 31, 1987.

Note 6 Transfer to the General Revenue Fund

All of the net income of the Fund has been transferred to the General Revenue Fund pursuant to section 4(2) of the Alberta Heritage Savings Trust Fund Act.

Note 7 Non-renewable Resource Revenue Transfer

15% (1986 — 15%) of the net non-renewable resource revenue received by the Province during the year ended March 31, 1987 has been transferred to the Alberta Heritage Savings Trust Fund pursuant to section 1 of the Alberta Heritage Savings Trust Fund Special Appropriation Act, 1986-87 and section 5(5) of the Alberta Heritage Savings Trust Fund Act.

In determining the amount of the net non-renewable resource revenue, the following amounts have been deducted from the non-renewable resource revenue received:

(i) transfers during the year to the Alberta Petroleum Incentives Program Fund, pursuant to section 3(2) of the Petroleum Incentives Program Act,

(ii) exploratory drilling, development drilling, geophysical exploration and well servicing grants paid and credits applied during the year, pursuant to section 4.1(2) and (3) of the Mines and Minerals Act, and

(iii) royalty tax credits paid, pursuant to section 26.41 of the Alberta Corporate Income Tax Act and section 12.2 of the Alberta Income Tax Act.

For the 1987-88 fiscal year, none of the non-renewable resource revenue received by the Province will be transferred to the Alberta Heritage Savings Trust Fund.

Note 8 Contingencies

Claims and potential claims pending at March 31, 1987 in respect of various capital projects exceed amounts expended by approximately $17,940,000 (1986 — $16,330,000). The resulting loss, if any, from these claims and potential claims cannot be determined.

Note 9 Comparative Figures

The 1986 figures have been reclassified where necessary to conform to the 1987 presentation.

Note 10 Approval of Financial Statements

These financial statements were approved by management.

Alberta Heritage Savings Trust Fund

Cash and Marketable Securities

March 31, 1987

Schedule 1

	1987		1986	
	Cost	Market Value	Cost	Market Value
	(thousands of dollars)			
Bonds:				
Government of Canada, direct	$ —	$ —	$ 10,159	$ 10,181
Provincial, direct and guaranteed:				
Alberta	—	—	1,410	1,379
Other provinces	—	—	24,442	23,805
	—	—	36,011	35,365
Bond coupons and residuals:				
Government of Canada, direct	1,127	1,130	49,545	49,371
Mid-term money market securities:				
Promissory note	—	—	6,838	6,788
Certificate of deposit	3,000	3,002	3,000	3,035
	3,000	3,002	9,838	9,823
Short-term money market securities (a):				
Treasury bills:				
Government of Canada	504,203	504,203	720,821	720,821
Province of Alberta	4,992	4,992	—	—
Other provinces	28,294	28,294	168,793	168,793
Promissory notes:				
Province of Alberta	981,371	981,371	35,000	35,000
Other	133,919	133,919	249,596	249,596
Bankers' acceptances	369,312	369,312	120,509	120,509
Deposit receipts	105,158	105,158	146,178	146,178
Bearer deposit notes	11,868	11,868	85,239	85,239
Certificates of deposit and guaranteed investment certificate	10,944	10,944	60,000	60,000
	2,150,061	2,150,061	1,586,136	1,586,136
Deposit in the Consolidated Cash Investment Trust Fund	98,321	98,321	94,317	94,317
	$2,252,509	$2,252,514	$1,775,847	$1,775,012

(a) The market value of short-term money market securities is estimated to approximate cost.

Alberta Heritage Savings Trust Fund

Canada Investment Division Investments

March 31, 1987

Schedule 2

	1987 Par Value	Cost 1987	Cost 1986
		(thousands of dollars)	
Debentures (a):			
Province of Manitoba	$ 260,000	$ 259,202	$ 258,958
Province of New Brunswick	247,000	245,385	245,080
New Brunswick Electric Power Commission	135,000	133,618	133,471
Province of Newfoundland	155,000	154,604	154,400
Newfoundland and Labrador Hydro	150,000	148,355	148,227
Newfoundland Municipal Financing Corporation	71,500	70,896	72,541
Province of Nova Scotia	235,000	232,446	232,243
Nova Scotia Municipal Finance Corporation	48,250	48,055	52,620
Nova Scotia Power Corporation	125,000	123,977	123,886
Province of Prince Edward Island	64,000	63,097	65,028
Hydro-Quebec	385,000	377,585	377,133
	$1,875,750	$1,857,220	$1,863,587

(a) Debentures bear interest rates from 9.50% to 17.75% with maturity dates from September 30, 1987 to July 15, 2005. The debentures are redeemable by a single payment of the full principal sum on maturity.

Alberta Heritage Savings Trust Fund

Alberta Investment Division Investments

Schedule 3

March 31, 1987

	1987	1986
	(thousands of dollars)	
Provincial corporation debentures (a):		
Alberta Agricultural Development Corporation	**$1,003,760**	$1,041,240
Alberta Government Telephones Commission	**1,298,407**	1,472,677
Alberta Mortgage and Housing Corporation	**3,396,194**	3,387,356
Alberta Municipal Financing Corporation	**1,279,576**	1,456,032
Alberta Opportunity Company	**155,600**	162,400
Corporate debentures:		
Bralorne Resources Limited 12.875% maturing on August 15, 1995	**3,500**	3,875
IPSCO Inc. 14.50% maturing on May 15, 1995	**3,462**	3,846
Ridley Grain Ltd. 11% participating first mortgage bonds (b)	**133,976**	133,976
Common shares:		
Alberta Energy Company Ltd. (c)	**87,346**	55,708
Bank of Alberta	**1,600**	1,600
Participation in Syncrude Project (d)	**483,316**	458,595
	$7,846,737	$8,177,305

(a) Provincial corporation debentures bear interest rates from 7.57% to 18.05% with maturity dates from May 3, 1987 to March 29, 2015. Interest rates on Alberta Government Telephones Commission and Alberta Municipal Financing Corporation debentures are fixed to maturity and redemption is by a single payment of the full principal sum on maturity. In general the interest rates on the other provincial corporation debentures are fixed for a 5 year period only and repayment is by annual instalments of the principal sum over the life of the debenture. The Provincial Treasurer may permit all or part of the other provincial corporation debentures to be redeemed by the issuer prior to maturity without penalty.

During the year debentures amounting to $32,851,000 (1986 — $42,139,000) were redeemed prior to maturity.

(b) The Province's contractual obligations to invest monies in participating first mortgage bonds of Ridley Grain Ltd. have been met up to the maximum authorized to be paid from the Fund. The monies have been used to finance the construction of a grain terminal at Ridley Island, Prince Rupert, British Columbia. Under the terms of the debenture, prior to completion of the project, interest on the bonds is capitalized and compounded annually; thereafter interest is compounded semi-annually and payable annually and any shortfall is to be capitalized. The principal, including capitalized interest, is repayable on or before July 31, 2015. No interest has been capitalized or accrued since July 31, 1985, the date of completion of the project. Income from the bonds is recognized to the extent that interest is received.

The Fund's investment in the Project at March 31, 1987 includes capitalized interest of $27,726,000 (1986 — $27,726,000).

(c) Pursuant to section 19(1) of the Alberta Energy Company Act, the Province may not hold more than 50% of the voting shares of the company and the aggregate amount that the Province may have invested in the company at any time, or be committed to invest, in common shares shall not exceed $250 million as the purchase price thereof. At March 31, 1987 the Fund held 19,257,732 common shares of the company (1986 — 16,506,627 common shares) representing 37% (1986 — 37%) of the total number of issued and outstanding voting shares of the company.

The company reported retained earnings at December 31, 1986 of $154,600,000 (1985 — $221,400,000).

(d) Authorization has been given to pay from the Fund the Province's share of construction and operating costs incurred under the Syncrude Project — Ownership and Management Agreement. As a 16.74% participant in the project the Fund is, as lessee, entitled to its proportionate share of all substances produced subject to the liabilities to the Province of Alberta, as lessor, in accordance with the Alberta Crown Agreement. The Fund's participation in the project is summarized hereunder:

	1987	1986
Balance at beginning of year	**$ 458,595,000**	$ 439,035,000
Advances	**158,203,000**	206,256,000
Repayments	**(167,054,000)**	(258,718,000)
Net profit for the year	**33,572,000**	72,022,000
Balance at end of year	**$ 483,316,000**	$ 458,595,000

In March 1985 the participants in the project approved acquisitions of capital assets over the ensuing 3 years which will cost them approximately $750 million. The Fund's share of the cost will amount to approximately $126 million, of which $73.2 million has been paid to March 31, 1987.

Alberta Heritage Savings Trust Fund

Energy Investment Division Investments

Schedule 4

March 31, 1987

	1987	1986
	(thousands of dollars)	
Corporate debenture:		
Luscar Ltd.		
13.875% maturing on December 2, 1989	$ 8,750	$16,250

Repayable in quarterly instalments of $1,250,000. An additional instalment to a maximum of $2,500,000 each year may be made at the company's option with a premium.

Alberta Heritage Savings Trust Fund

Commercial Investment Division Investments

Schedule 5

March 31, 1987

	1987		1986	
	Cost	Market Value	Cost	Market Value
	(thousands of dollars)			
Canadian equities (a):				
Common shares:				
Communications and media	$ 15,621	$ 35,244	$ 7,074	$ 20,912
Consumer products	17,358	44,481	23,381	48,329
Financial services	20,159	29,558	7,369	18,456
Gold and silver	14,313	34,077	8,583	13,063
Industrial products	19,601	39,757	20,267	37,562
Management companies	12,059	39,051	16,492	33,283
Merchandising	16,263	39,250	15,575	36,356
Metals and minerals	25,401	44,213	24,222	35,512
Oil and gas	35,203	58,515	29,886	34,831
Paper and forest products	10,064	37,028	10,064	21,850
Pipelines	12,416	19,550	10,200	13,283
Transportation	2,584	11,957	3,036	6,116
Utilities	15,084	27,154	15,168	24,818
Preferred shares:				
Merchandising	2,124	4,331	2,124	4,463
Financial services	5,157	5,187	—	—
	223,407	469,353	193,441	348,834
Convertible bonds	—	—	15,034	16,973
Short-term money market securities (b):				
Treasury bills:				
Government of Canada	9,345	9,345	8,797	8,797
	$232,752	$478,698	$217,272	$374,604

(a) The industrial classifications are those used by the Toronto Stock Exchange.

(b) The market value of short-term money market securities is estimated to approximate cost.

Alberta Heritage Savings Trust Fund

Capital Projects Division Investments — Assets

Schedule 6

March 31, 1987

Department/Project	1987	1986
	(thousands of dollars)	
Economic Development and Trade		
Venture Capital Financing — Vencap Equities Alberta Ltd. (a)	$ 199,997	$ 199,998

(a) The outstanding balance of the loan to Vencap Equities Alberta Ltd. (Vencap) is repayable in instalments of $1,000 in each of the years 1987 to 2002, inclusive, in instalments of $15,000,000 in each of the years 2003 to 2012, inclusive, and a final instalment of $49,981,000 in 2013. In the current year interest on the participating debenture securing the loan amounts to 50% (1986 — 50%) of the defined net income of Vencap. This percentage reduces as the loan is repaid and convertible debentures amounting to $40,000,000, maturing July 2, 1998, and guaranteed by the Province, are converted or redeemed. For 20 years following full repayment of the loan, the Fund will receive 10% of the defined net income of Vencap.

As further consideration for the loan the Province has been granted an option to purchase up to 4,000,000 special shares at $1 each, exclusive to the Province, convertible into common shares of Vencap. The purchase option expires on the later of the repayment of the loan and the redemption or conversion of the convertible debentures, on which later date the 20% voting rights attaching to each and all of the special shares cease.

Alberta Heritage Savings Trust Fund

Capital Projects Division Investments — Deemed Assets

Schedule 7

March 31, 1987

Department/Project	1987	1986
	(thousands of dollars)	
Advanced Education		
Alberta Heritage Scholarship Fund	$ 100,000	$ 100,000
Library Development	9,000	9,000
Agriculture		
Farming For The Future	39,149	34,438
Food Processing Development Centre	9,013	8,165
Irrigation Rehabilitation and Expansion	212,121	182,214
Community and Occupational Health		
Occupational Health and Safety Research and Education	5,338	3,924
Economic Development and Trade		
Rail Hopper Cars	53,779	53,779
Education		
Alberta Heritage Learning Resources	9,222	9,222
Energy		
Alberta Oil Sands Technology and Research Authority	382,849	351,449
Environment		
Irrigation Headworks and Main Irrigation Systems Improvement	315,255	255,351
Land Reclamation	29,133	26,298
Lesser Slave Lake Outlet	2,889	2,889
Paddle River Basin Development	41,781	41,312

Schedule 7 (cont'd)

Department/Project	1987	1986
	(thousands of dollars)	
Forestry, Lands and Wildlife		
Alberta Reforestation Nursery	$ 14,739	$ 14,739
Grazing Reserves Development	35,924	31,515
Maintaining Our Forests	24,960	24,236
Hospitals and Medical Care		
Alberta Children's Provincial General Hospital	40,477	40,477
Applied Cancer Research	34,050	29,244
Applied Heart Disease Research	29,341	29,341
Tom Baker Cancer Centre and Special Services Facility	93,204	93,204
Walter C. Mackenzie Health Sciences Centre	388,010	355,998
Alberta Heritage Foundation for Medical Research Endowment Fund	300,000	300,000
Public Works, Supply and Services		
Capital City Recreation Park	42,310	42,243
Fish Creek Provincial Park (Land)	28,237	28,161
Recreation and Parks		
Fish Creek Provincial Park (Development)	16,859	16,859
Kananaskis Country Recreation Development	221,238	211,792
Municipal Recreation/Tourism Areas	3,475	—
Urban Parks	86,650	82,408
Technology, Research and Telecommunications		
Electronics Test Centre	6,175	5,610
Microchip Design and Fabrication Facilities	7,750	2,254
Transportation and Utilities		
Airport Terminal Buildings	16,359	16,359
Universal Rural Private Telephone Line Service	30,000	—
	$2,629,287	$2,402,481

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